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PAGE 01 NEW DE 14622 050906Z

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SUBJ: SUPER THERMAL POWER STATIONS - DEVELOPMENT OF INDIAN
EQUIPMENT PRODUCTION CAPABILITY

REF: NEW DELHI 12803

1. M.G. BHANOO THE NEW DELHI MANAGER OF GENERAL ELECTRIC COMPANY CALLED AT THE EMBASSY TO REPORT ON THE RECENT DISCUSSIONS THAT V. KRISHNAMURTHY, CHAIRMAN OF THE GOI-OWNED BHARAT HEAVY ELECTRICALS LIMITED (BHEL) HAD WITH TOP GE CORPORATE OFFICIALS AT SCHENECTADY, NEW YORK. BHANOO HAD BEEN CALLED BY GE HEADQUARTERS TO BE PRESENT FOR THESE DISCUSSIONS.

2. ACCORDING TO BHANOO, DISCUSSIONS BETWEEN KRISHNAMURTHY AND GE OFFICIALS CENTERED LARGELY AROUND THE POSSIBILITY OF SIGNING A TECHNOLOGY TRANSFER AGREEMENT WHICH WOULD GIVE BHEL URGENTLY NEEDED GE KNOW-HOW TO BUILD 500 MW STEAM TURBINES. IN RETURN, GE WOULD RESERVE THE VERBAL ASSURANCES FROM BHEL THAT IT WOULD IMPORT TWO 500 MW GENERATORS AT A LATER DATE. THE TOTAL VALUE OF THE WHOLE PACKAGE WOULD BE APPROXIMATELY \$60-70 MILLION OVER A FIVE

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PAGE 02 NEW DE 14622 050906Z

YEAR PERIOD. THE IMPORTATION OF THE TWO GENERATORS WOULD,

HOWEVER, BE DEPENDENT UPON THE AVAILABILITY OF FINANCING FROM THE WORLD BANK GROUP, WHICH IS CURRENTLY EVALUATING THE ECONOMICS AND FEASIBILITY OF ESTABLISHING FOUR SUPER THERMAL POWER STATIONS IN INDIA ON THE BASIS OF A PRE-LIMINARY LOAN APPLICATION SUBMITTED TO THE WORLD BANK BY THE GOI. KRISHNAMURTHY TOLD GE OFFICIALS THAT HE WAS UNABLE TO SIGN A FORMAL CONTRACT FOR THE PURCHASE OF EQUIPMENT UNTIL SUCH TIME THAT AN ACTUAL FINANCING COMMITMENT FROM THE WORLD BANK/IDA WAS FORTHCOMING. BHANOO STATED THAT HE BELIEVED THAT GE HAS A BETTER THAN 80 PERCENT CHANCE OF GETTING THE BUSINESS.

3. TO CHECK OUT FURTHER ON THE INFORMATION PROVIDED BY GHANOO, WE MADE INFORMAL INQUIRIES WITH OFFICIALS DIRECTLY CONCERNED WITH OVERALL PLANNING OF THE SUPER THERMAL POWER PROGRAM WITHIN THE MINISTRIES OF ENERGY AND HEAVY INDUSTRY AND BHEL. OUR DISCUSSIONS INDICATE THAT THE CONSORTIUM OF SIEMENS AND MAN OF WEST GERMANY ARE VERY STRONG CONTENDERS TO GE IN THE AREAS OF BOTH EQUIPMENT SUPPLY AND TECHNOLOGY TRANSFER TO BHEL. SIEMENS, PARTICULARLY, HAVE BEEN KNOWN TO BE VERY EAGER TO ESTABLISH A FIRMER FOOT-HOLD IN INDIA. DURING THE THIRD WEEK OF OCTOBER GOI MINISTER OF ENERGY K.C. PANT SPENT FOUR DAYS IN WEST GERMANY EXPLORING, AMONG OTHER THINGS THE POSSIBILITY OF OBTAINING WEST GERMAN FINANCIAL AND TECHNICAL ASSISTANCE FOR INDIA'S SUPER THERMAL POWER GENERATION PROGRAM. DURING HIS VISIT, MINISTER PANT HAD MEETINGS WITH THE TOP MANAGEMENT OF SIEMENS WHO REPORTEDLY EXPRESSED GREAT ENTHUSIASM FOR ENTERING INTO A TECHNOLOGY TRANSFER AGREEMENT WITH BHEL FOR THE SUPPLY OF LARGE TURBINE MANUFACTURING KNOW-HOW TO ENABLE INDIA TO DEVELOP 500 MW THERMAL POWER EQUIPMENT PRODUCTION CAPABILITIES. TO STRENGTHEN SIEMENS COMPETITIVE POSITION, PANT WAS INFORMALLY ASSURED BY THE

WEST GERMAN GOVERNMENT THAT MOST FAVORABLE CONSIDERATION WOULD BE GIVEN TO THE POSSIBILITY OF PROVIDING A SUBSTANTIAL LINE OF GERMAN FINANCING TO ENABLE INDIA TO IMPORT ONE OR TWO 500 MW GENERATORS FROM SIEMENS, IF BHEL SELECTED THE SIEMENS/MAN GROUP FOR A LONG-TERM TECHNICAL COLLABORATION.

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PAGE 03 NEW DE 14622 050906Z

4. TWO SENIOR BHEL OFFICIALS HAVE ALSO HAD RECENT IN-DEPTH DISCUSSIONS WITH SIEMENS OFFICIALS TO EVALUATE THEIR TECHNICAL AND RESEARCH CAPABILITIES IN THE LARGE THERMAL POWER EQUIPMENT FIELD. THESE BHEL OFFICIALS WERE: DR. SHARAN, ADVISOR AND HEAD OF ENERGY SYSTEMS OF NEW PROJECTS; AND DR. GARDE, DEPUTY CHIEF OF PLANNING AND DEVELOPMENT.

5. ALTHOUGH BHEL HIGHLY RATES GE TECHNOLOGY AND HAS INDICATED ITS DESIRE TO GAIN ACCESS TO IT, OUR ASSESSMENT IN THAT BHANOO IS OVERLY OPTIMISTIC IN THINKING THAT THEY HAVE ABOUT AN 80 PERCENT CHANCE OF SUCCESS IN GETTING THE INDIAN BUSINESS. THE OVERTURES BEING MADE BY SIEMENS, TOGETHER WITH THE EXTREMELY ATTRACTIVE FINANCING POSSIBILITIES PRESENTED BY WEST GERMANY, WOULD APPEAR TO SUGGEST THAT TECHNOLOGICAL CONSIDERATIONS, ALTHOUGH IMPORTANT, MAY NOT ALONE BE THE PRIMARY DETERMINING FACTOR IN SELECTING FOREIGN TECHNOLOGY OF IN AWARDING CONTRACTS TO A FOREIGN SUPPLIER. EVEN IF WORLD BANK FINANCING IS MADE AVAILABLE TO INDIA, IMPORTS WILL BE SUBJECT TO THE USUAL CONDITIONS WHICH REQUIRE THAT THE EQUIPMENT IMPORTED IS THE MOST ECONOMIC AND MODERN AND THAT ITS PROCUREMENT IS MADE ON THE BASIS OF INTERNATIONAL COMPETITIVE BIDS FROM SUPPLIERS WITH PROVEN EXPERTISE AND EXPERIENCE. THE CONSENSUS OF MOST INDIAN OFFICIALS IS THAT, IN OPEN COMPETITIVE BIDDING UNDER WORLD BANK GROUP REGULATIONS, GE COULD WELL BE PRICED OUT BY SIEMENS AND OTHER COMPETITORS.

6. ANOTHER TEAM FROM BHEL IS TENTATIVELY SCHEDULED TO VISIT SIEMENS SOMETIME ABOUT THE END OF NOVEMBER FOR FURTHER DISCUSSIONS ON THE TECHNOLOGICAL ASPECTS OF THE SIEMENS PROPOSALS.

7. COMMENT: MINISTER PANT IS REPORTED TO BE FAVORABLY INCLINED TO ACCEPTING THE SIEMENS OFFER IRRESPECTIVE OF THE OUTCOME OF THE ONGOING WORLD BANK EVALUATION OF INDIA'S REQUEST FOR A LINE OF CREDIT FOR THE FOUR SUPER THERMAL POWER PLANTS. HE IS REPORTEDLY CONVINCED THAT SIEMENS TECHNOLOGY IS SECOND TO NONE AND HOLDS THE VIEW THAT IT LIMITED OFFICIAL USE

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PAGE 04 NEW DE 14622 050906Z

WOULD BE MORE PRACTICAL TO DO BUSINESS WITH A FOREIGN CORPORATION THAT IS EAGER TO COLLABORATE RATHER THAN WITH ONE THAT APPEARS TO BE DRAGGING ITS FEET. THE TWO BHEL OFFICIALS WHO HAVE HAD NEGOTIATIONS WITH SIEMENS ARE ALSO STATED TO BE OF THE OPINION THAT THE TECHNOLOGY OF BOTH GE AND SIEMENS IS COMPARABLE AND IF GE HAS ANY TECHNOLOGICAL EDGE OVER SIEMENS IT IS NO MORE THAN MARGINAL. MINISTER PANT IS LIKELY TO SUBMIT A NOTE TO THE CABINET WITHIN THE NEXT FORTNIGHT RECOMMENDING INTER ALIA THAT THE OFFERS MADE BY SIEMENS AND WEST GERMANY BE FOLLOWED THROUGH AND, IF FOUND ACCEPTABLE, BE APPROVED. ALTHOUGH BHEL IS UNDER THE ADMINISTRATIVE CONTROL OF THE MINISTRY OF INDUSTRY, MINISTER PANT WIELDS SUFFICIENT CLOUT WITHIN THE CABINET TO TIP THE SCALES IN FAVOR OF SIEMENS IF ALL OTHER FACTORS ARE EQUAL.

8. WE SUGGEST THAT YOU BRING TO THE ATTENTION OF GE
THE SUBSTANCE OF PARAGRAPHS 3-7.

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